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Annual Report

British Columbia Systems Corporation

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B747
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1987-88
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British Columbia Cataloguing in Publication Data
British Columbia Systems Corporation
Annual Report. - 31st March 1979: 1979-80.

Annual Report 1987-88

Report year ends March 31.

ISSN 0710-846X - Annual report - British Columbia Systems Corporation

1. British Columbia Systems Corporation - Periodicals.
2. British Columbia - Executive departments - Management -
Data processing - Periodicals.
3. Administrative agencies - British Columbia - Management -
Data processing - Periodicals.

JL429.5.A8B74

354.711'00028'5

Rev. June 1988

The Honourable Robert Gordon Rogers
Lieutenant-Governor of the Province of British Columbia

May it please your Honour:

The Annual Report of the British Columbia Systems Corporation for the fiscal year 1987-88 is herewith respectfully submitted.



Elwood Veitch

Honourable Elwood Veitch
Minister Responsible

2



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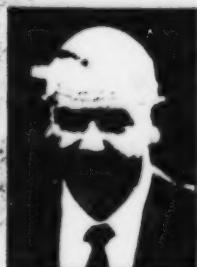
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D.M. BUCHANAN



M.J. FALKINS



H.N. VEITCH



G.J. HOOK



W. EVANS



R.J. GAYTON



J.R. WEBBER

Board of Directors

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Geoffrey J. Hook Consulting Services
Victoria, B.C.
Chairman of the Board

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Penticton, B.C.
Director

HON. M. COUVELIER
Minister of Finance and Corporate Relations
Province of British Columbia
Victoria, B.C.
Resigned September 1987

W.E. EVANS
President and Chief Executive Officer
British Columbia Systems Corporation
Victoria, B.C.
Director

M.J. FALKINS
Senior Vice President
Falkins McIntosh, Reed Stenhouse
Victoria, B.C.
Director & Chairman
Compensation Committee

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Chief Financial Officer
Prime Capital Corporation
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Director & Chairman
Audit Committee

C.D. SLADE
Secretary to the Board

HON. E.N. VEITCH
Minister of Provincial Secretary
and Government Services
Province of British Columbia
Victoria, B.C.
Director and Minister Responsible
Appointed September 1987

J.R. WEBBER
Partner
Webber and Company
Kamloops, B.C.
Director

Executive

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President and Chief Executive Officer

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Vice President
Telecommunications Services

N.E. GLASSEL
Senior Vice President
Client Services and Corporate Planning

R.N. GREER
Vice President
Client Services and Human Resources

J.G. HAYES
Executive Director
Finance and Administration

C.D. SLADE
Senior Vice President
Data Processing Services

During fiscal 1987-88, BC Systems maintained a strong and sustained period of growth and innovation, and recorded a most successful financial year. The merger with the Government's Telecommunications Services Branch, the acquisition of significant new clients, an expansion of our electronic mail service and a strengthening of our marketing group were all achieved. During the year we also reduced prices significantly, improved productivity and rejuvenated our processing services. It has been a most productive and satisfying year.

In October of 1987 the Government announced its intention to sell the Corporation to the private sector. We would expect that definite news on this matter will be forthcoming shortly. In the meantime it is "business as usual."

On behalf of the Board of Directors, I wish to acknowledge the dedication and contribution of the staff during the past year. They have done a good job and we thank them.

A handwritten signature in dark ink, appearing to read "G.J. Hook". The signature is fluid and cursive, with a large initial "G" and a stylized "H".

G.J. Hook
Chairman of the board

British Columbia Systems Corporation is a provincial Crown Corporation whose mandate is to advance the effective and efficient use of information systems in the BC public sector. As a service organization within Government, BC Systems provides shared computer processing, data and voice communications and selected professional services on a competitive basis.

Based in the Victoria headquarters building, the Corporation's large scale computer centre is used by ministries and agencies to process a variety of Government's on-line and batch processing systems. As well, the Corporation's skilled staff support a number of interactive computing services that are used throughout the public sector, including electronic mail systems that serve over 4,000 users.

BC Systems' shared data communications networks provide for remote workstation access to its computers and to computers located at client sites. In 1987, BC Systems also assumed responsibility for government voice communications services, including the PROVNET telephone network.

In direct support of its shared computer processing and communications services, BC Systems offers a number of professional services for its clients. Management and technical personnel are provided for long term secondment or on short term assignments. The Education Services group also provides a range of technical training and professional development services.

With annual revenues of over \$43,000,000 and more than 500 employees, the Corporation has continued to play a leadership role in the deployment of innovative computing and communications technology within the public sector.

The following pages provide information and highlights from fiscal 1987-88, our tenth anniversary year.



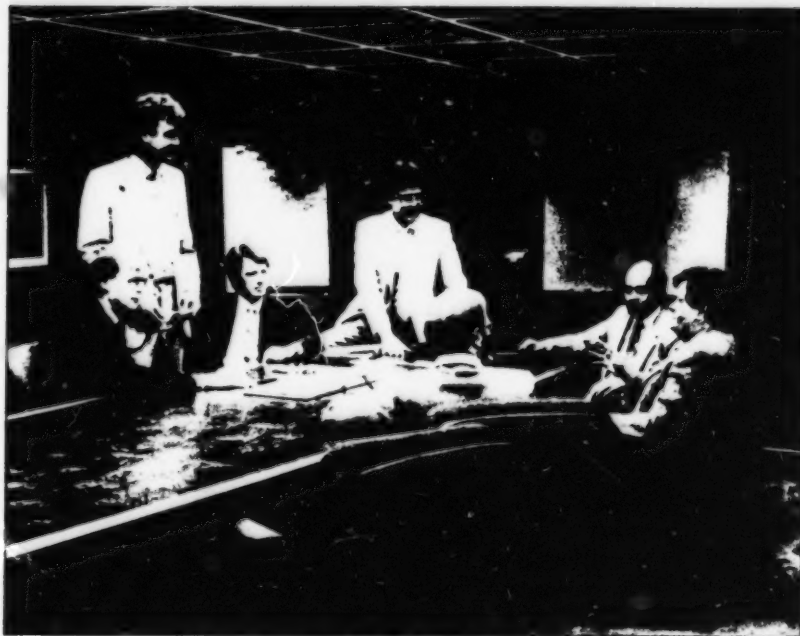
VAX Processing Services Support Staff



Network Equipment Room

Service to Our Clients

Client Support



Marketing and Product Groups Meet Regularly To Review Client Requirements

During 1987-88, BC Systems paid special attention to its primary corporate objective: serving clients.

To support this focus, the Corporation developed a new Marketing department. This group's role is to work closely with clients to understand their business requirements and to help them identify the ways our products and services can help them to achieve their business plans. In 1987-88, this group was significantly strengthened through the addition of new resources and a renewed corporate commitment to client support.

The Customer Service Centre (CSC) also plays a key client support role. The CSC staff receive over 3000 calls per month from clients wanting help with issues ranging from faulty workstations to questions about particular software products. The Corporation has received very positive feedback about the improvements made in this crucial client interface function.



The Customer Service Centre

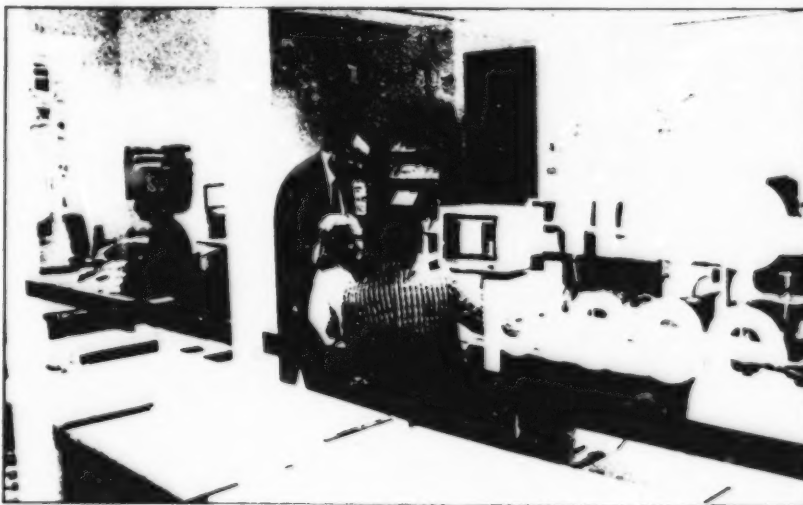
Report on Service to Our Clients Client Communications

In the rapidly changing world of data processing, effective communication with customers is essential. BC Systems undertook several initiatives during 1987-88 to improve both the way it informs and the way it listens to its clients.

To keep clients aware of events within BC Systems, the Corporation continued publication of the Journal, a technical review presenting articles in easily readable form, and introduced the Products and Services News, a monthly newsletter announcing additions and changes in our services. The Corporation also increased the use of electronic mail to inform clients of technical changes, details of services offerings, manuals and rate schedules.

To maintain an understanding of clients' needs, the Corporation continued to work with users with interests in specific products and services. These user groups provide a forum for the exchange of product ideas and have proven invaluable in helping BC Systems establish meaningful product plans. One notable addition during 1987-88 was the Network Special Interest Group, a committee of Ministry Information System Branch Directors and BC Systems Network Support staff.

Finally, we continued to work with the User Review Committee, a committee of senior officials representing all ministries. This advisory group to the Board of Directors was very valuable through the direction and support it provided.



Info Place Provides Facilities For Vendor Demonstrations



Company Staff Visit Client Sites

Service to Our Clients

Client Applications

BC Systems' computer, communications and professional services play an integral role in many of Government's information systems. These systems provide support for activities ranging from the preparation of voters lists through driver licensing, to the processing of Medical Services Plan claims. This large base of key systems was augmented during 1987-88 by a number of exciting new initiatives:

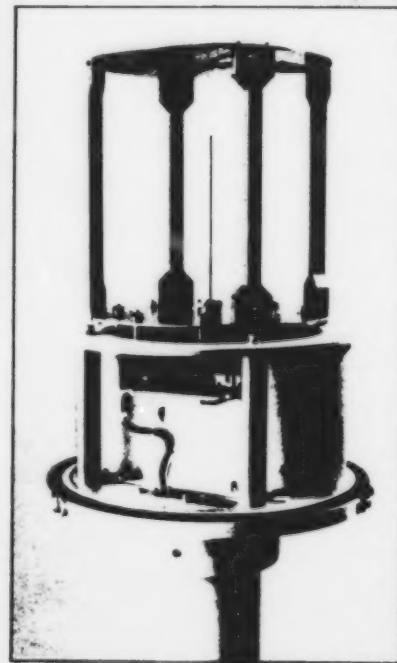


Lightning Detection

In December of 1987, the Protection Branch of the Ministry of Forests and Lands requested a significant upgrade to its existing Lightning Detection system. New technology in lightning location equipment permitted the use of more advanced shared communication facilities. BC Systems was awarded the contract after an extensive evaluation of services provided by competitors. Ninety-five separate communication links from the Corporation's data communications network were installed to reach the 24 direction finder sites, an additional 35 district offices and 6 airports. These new links transfer data four times faster than the old system and provide extensive error correction facilities. The information collected through this network and processed on the Corporation's shared processing service allows the Branch to respond quickly to forest fire situations.

High Speed Data Link

The Ministry of Environment and Parks uses VAX shared processing services for several of its application systems. To improve access to these applications, a high-speed, digital, optical fibre link was established between BC Systems and the Ministry's Victoria office. This link, which has a capacity of hundreds of megabits per second, marked the first use of the optical fibre technology within the BC Systems network.



Lightning Detection System Equipment



Members of the Government Agents RMS Team

Revenue Management

Government Agents offices in 61 communities throughout the province will soon be accessing a new Revenue Management System. A replacement for the existing cash register system, the application will record government transactions that are processed by Government Agents. The system was developed using BC Systems' latest relational database product, DP2, and will use our communications facilities to provide access to the RMS application and to government-wide electronic mail services.

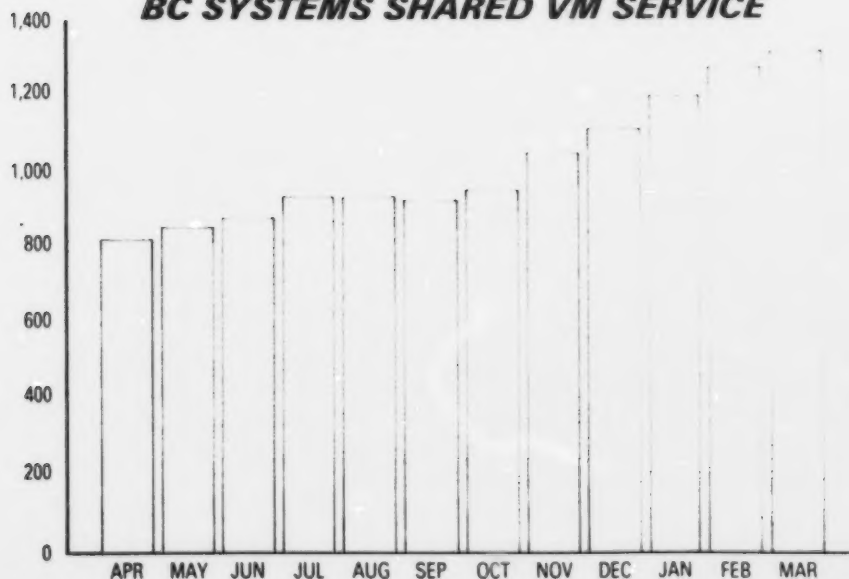
Executive Electronic Mail

The B.C. Government's Deputy Ministers Council requested BC Systems' support in establishing electronic mail services for all members of the Council. The service was seen as an important tool for facilitating Council communications and for coordinating meetings. In cooperation with Ministry Information Systems Branches, Deputy Ministers and their secretaries were provided with access to electronic mail and given on-site training. Council members thus joined an ever increasing community of electronic mail users within the British Columbia public sector.

Inter Provincial Data Exchange

A data network link was established with the Government of Alberta for the electronic exchange of information. This communications facility, a national pilot test, enables Motor Vehicle Departments in Alberta and British Columbia to verify information about drivers and vehicles that are being transferred between the two provinces.

NUMBER OF PROFS USER IDS BC SYSTEMS SHARED VM SERVICE



(cont'd)

Medical Professionals On-Line

The Ministry of Health's Teleplan II system provides a standard data communications interface to all doctors, hospitals, clinics and medical laboratories in the province. Using BC Systems' shared processing and network services, the new system will provide for the electronic submission of medical service claims directly to the Ministry when it goes into full production in early fiscal 88-89.

Recovery Planning

During 1987-88, BC Systems Security Services Department advanced the Corporation's Disaster Recovery Planning (DRP) with the assistance of the Ministry of Provincial Secretary and Government Services' Elections Branch. In February, staff travelled to the Insurance Corporation of British Columbia's headquarters in Vancouver, the Corporation's contingency site, and established a backup system. The rehearsal was a success and the Elections Branch staff learned important ways to improve the readiness of their critical application.

Industrial Relations Council

During 1987-88, BC Systems provided support for a new client: the Industrial Relations Council (IRC). The Corporation's staff handled the complete installation of the IRC's new computer system, including wiring the site and implementation of all systems software. As well, our staff assisted in the definition of the IRC's requirements for a new Case Management System and will be involved with the application's development.

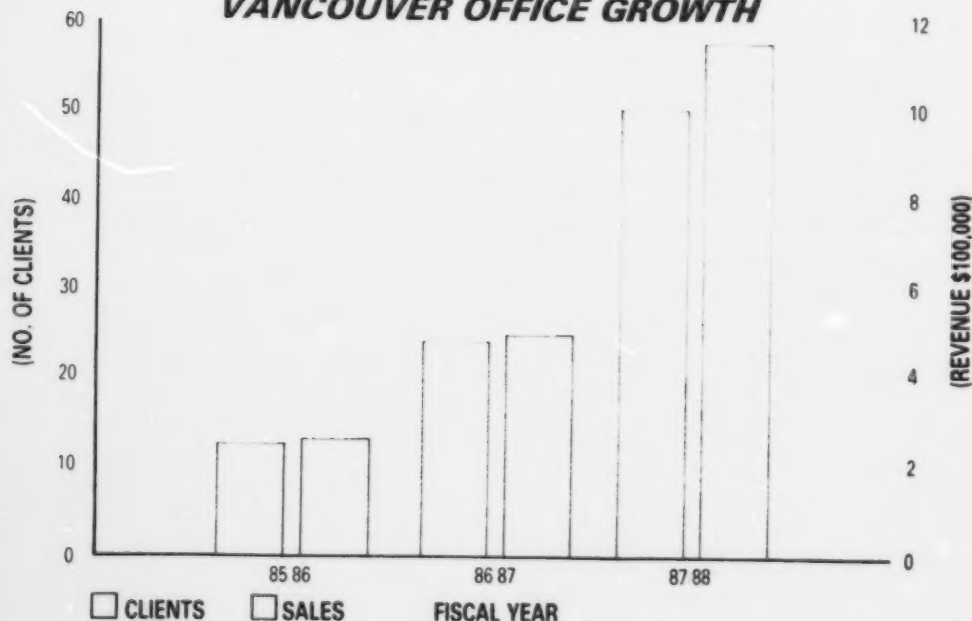
New Vancouver Clients

Our Vancouver office now provides education services, product and service demonstrations, library services and Info Centre support for its growing client base. Both revenues (\$1,150,000) and the number of non-ministry clients (50) were up dramatically from previous years' levels.



TELEPLAN II Doctor's Office

VANCOUVER OFFICE GROWTH



Report Products and Services Shared Processing

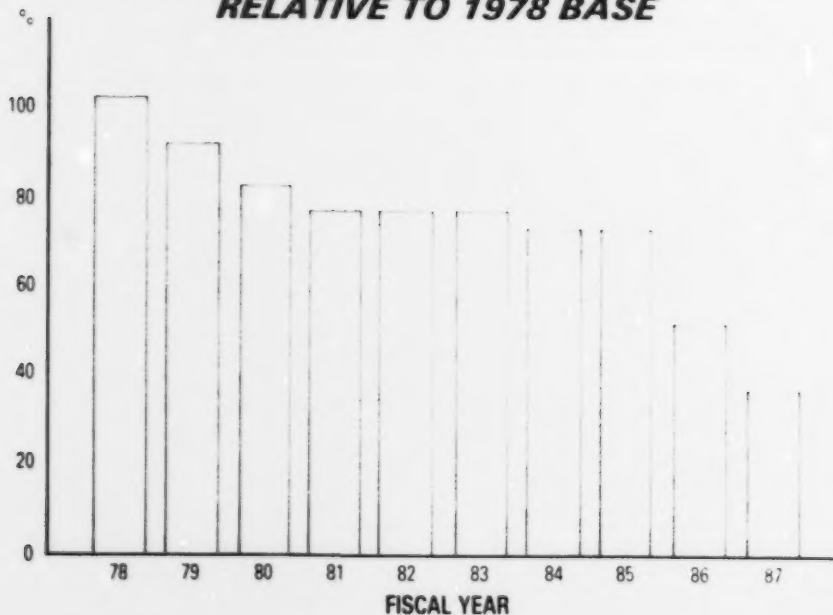


MVS Console Operators

BC Systems provides shared processing services using IBM MVS, IBM VM and Digital VAX computer systems. In 1987-88 service goals were reformulated to provide better service to the increasing number of processing users. At the beginning of the year the Corporation had more than 12,000 accounts on its systems, representing users with a variety of computing skills and experience levels. To meet the needs of this evolving client base, support teams were enhanced and a variety of new products were added to the processing environments.

The MVS processing service accounts for 80% of the Corporation's shared processing revenue and is the most mature service. To rejuvenate this key area, an Operations Enhancement Project was launched. Project results during 1987-88 included the reduction of costs through automation of operations and redesign of the computer room, and the alteration of shift patterns to ensure that operations experts are on hand day and night. As this more effective and responsive processing environment was being built, the time sharing service was improved, a new production on-line transaction service was introduced, and a new relational data base service was implemented. As well, new software tools were acquired to help systems developers, work on expert systems was begun and the printing service was greatly enhanced. As a result, workload on the MVS system grew by 25%.

MVS PROCESSING SERVICE RATES RELATIVE TO 1978 BASE



(cont'd)

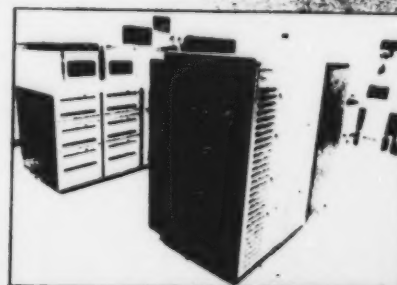
BC Systems' VM processing service is principally known as the service that runs the PROFS office automation system. PROFS, with its electronic mail service, grew on both our shared system and systems installed at client sites, by more than 60% to over 3,000 users. The VM processing service is also particularly suited to end user computing. As a result, several clients have installed their own VM systems. These systems are all supported by BC Systems technical staff.

During the year, many new clients began to use the Corporation's VAX processing service, with a particularly heavy seasonal workload coming from the Ministry of Forests and Lands Fire Protection System. Work from other resource-based ministries also grew markedly, and Riverview Hospital became a shared VAX customer. In total, demand for the shared VAX processing service rose by 100%. Staff implemented two major capacity upgrades, introduced a new information retrieval software package and a second user-friendly data base management system, and experimented with a new text retrieval system.

Because clients use a variety of computers from companies like IBM, Digital, Hewlett Packard and Wang, BC Systems has developed special expertise in interconnecting these systems. This interconnection is especially apparent for electronic mail where thousands of users on six different kinds of systems can send mail to each other. BC Systems has become an industry leader in connecting these electronic mail systems in production mode.



PROFS Training Session



VAX Processing Service

Products and Services *Telecommunications Services*



TSD Voice Services Analyst

1987-88 was a year of growth, change and challenge in the provision of telecommunication network services.

The year's major event was the announcement of the merger of the Government's Telecommunications Services Branch (TSB) with BC Systems Corporation, the first step towards the integration of the Government's voice and data communications. This merger has been a Corporate objective for several years.

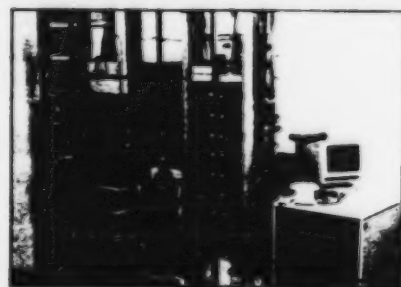
The organizational integration began with the transfer of twenty-six TSB employees to BC Systems. Newly integrated technical, operations and administrative groups now handle both voice and data communications services. These groups began planning for an integrated voice/data backbone network as well as on the information systems required to manage the large volumes of data typical of network services.

(cont'd)

On the data communications side, both of the BC Systems shared networks enjoyed strong growth demands. The shared SNA network grew by 27%, adding over 1500 terminal devices, while DNet expanded from just under 1,000 to almost 3,000 terminals and host ports.

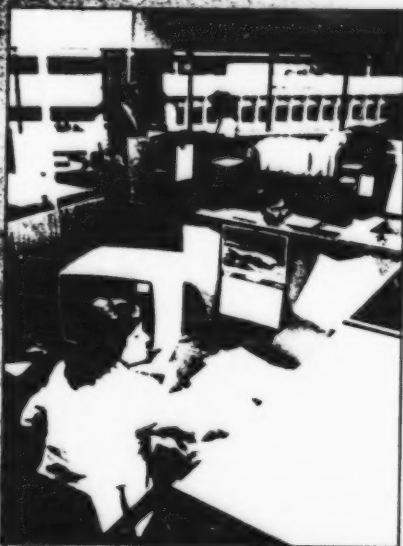
Supporting this rapid growth and yet maintaining reliable, responsive service meant numerous technical changes behind the scenes. In the SNA network, the backbone transmission facilities were redesigned to improve reliability and lower costs, and new communications controllers were installed to handle the increasing volumes.

DNet, the Corporation's fastest growing service during 1987-88, more than quadrupled its revenue from the previous year. This growth necessitated the installation of several DNet switches throughout the province and the addition of more technical support staff. Significant installations were carried out for Environment and Parks, Forests and Lands, the Attorney General, BC Buildings Corporation and the eight Development Regions.



Prince George Remote Network Centre

Report on Operations Products and Services Professional Services



Library of Health ISB

BC Systems offers a variety of professional services in support of clients' information systems needs.

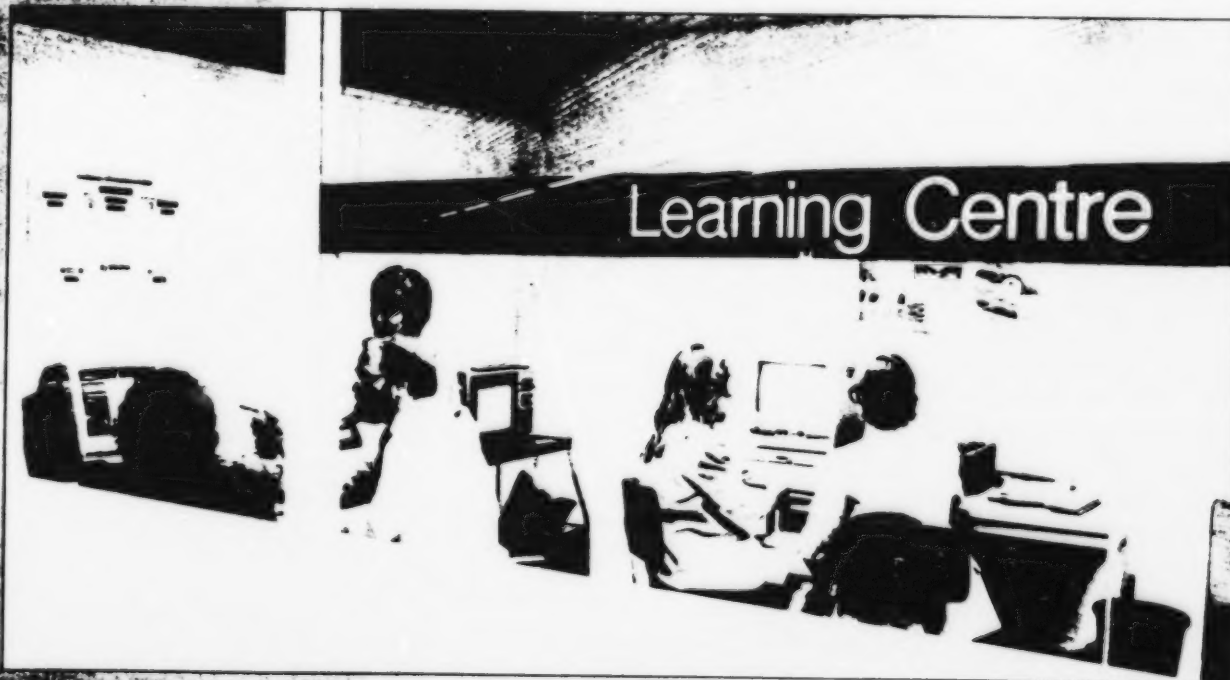
The Information Systems Branch (ISB) staffing service provides management and technical staff to clients on a long term secondment basis. Revenues for this service grew by 9% during the past fiscal year, and now includes over 270 professionals.

The Corporation's Education Services offerings also continued to be very popular. The number of client education days grew to 3,570 in 1987-88, an increase of 63% over 1986-87. BC Systems' primary Education Services role involves marketing, publishing of course catalogues, provision of facilities, and course administration. Technical and management course instruction is provided by private sector firms under contractual arrangements with BC Systems.

Facilities Management (FM) services are used by clients to assist them in the management and support of their in-house computer systems. The service allows clients to share the experienced, technical staff available within the Corporation. During 1987-88, BC Systems continued to provide FM services for clients' WANG, IBM VM, DEC and IBM 8100 facilities.

One new professional service was added in 1987-88: Database Management Systems (DBMS) Support Services. Under this service, BC Systems assumes full technical responsibility for management of client databases residing on the shared IBM MVS and VM systems. This offering was so attractive that most clients with major databases signed support contracts.

In addition, BC Systems continued to provide other specialized professional services including equipment installation, security analysis, and consulting in a variety of technical areas.



Learning Centre

Products and Services *Information Brokerage*

This past year brought an increased interest in innovative means of enhancing the public's access to government information. Faced with increasing demand from public and business sectors for a variety of data, ministries and other entities have been looking to BC Systems for automated solutions to their information access requirements. Given BC Systems' unique role as custodian of much of Government's electronic data, the Corporation is well positioned to act as broker for many of the Government's most important data bases.

To this end, BC Systems has been developing its 'infoBC online' service. This is an information access service which will connect the personal computer of an authorized business or individual with many of the provincial government's data bases. A simple dial-up connection between the user and infoBC will allow users to search data bases for specific information directly from their own offices. Initial market research indicates substantial demand for electronic access to various quasi-judicial data bases by lawyers, financial institutions and other related professions. BC Systems has worked closely with several ministries in anticipation of introducing a trial of infoBC online in 1988. The service will simplify distribution of information for ministries, and simplify access for the data user.

Over the past year, BC Systems has also continued to develop expertise in the field of touch screen computing. Touch-sensitive screens are linked to a microcomputer and video laser disc, allowing users to access stored information without using the usual computer keyboard. This simplified access, coupled with laser disc video technology, makes for an extremely user-friendly system which can be installed in public locations and accessed by anyone. In 1987-88, BC Systems developed touchscreen applications for the Ministry of Economic Development, the Friends of the Provincial Museum and the BC Lottery Foundation. BC Systems sees great opportunities for this technology in the coming year.



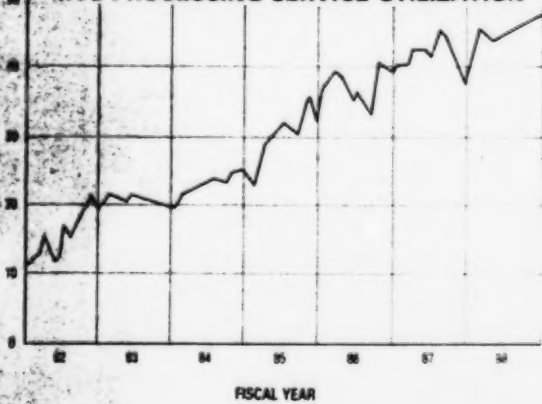
InfoBC Touch Screen Development

Report on Performance Highlights

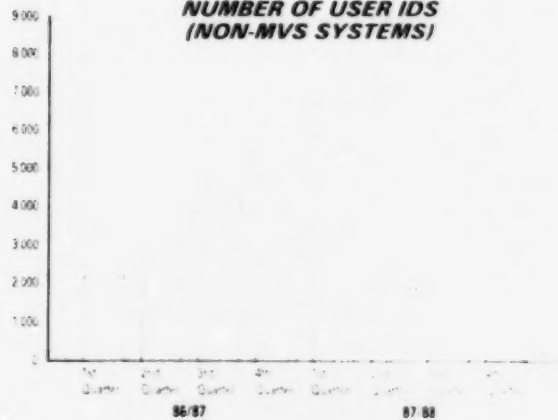
Processing Volumes

Processing volumes reflected the significant rate reductions that were introduced for the MVS service in May 1987 and in the VAX service in October 1987.

MVS PROCESSING SERVICE UTILIZATION



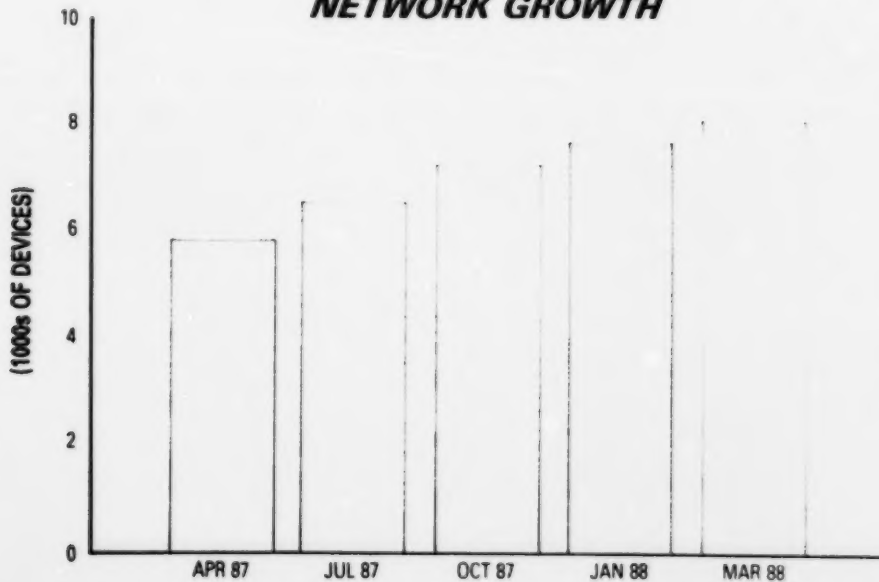
**NUMBER OF USER IDS
(NON-MVS SYSTEMS)**



Network Growth

During a year of strong growth, the SNA and DNet networks maintained an enviable prime time reliability record of 99.91% and 99.88% respectively.

NETWORK GROWTH

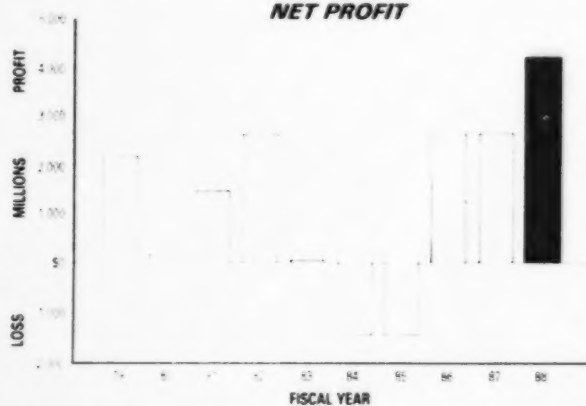


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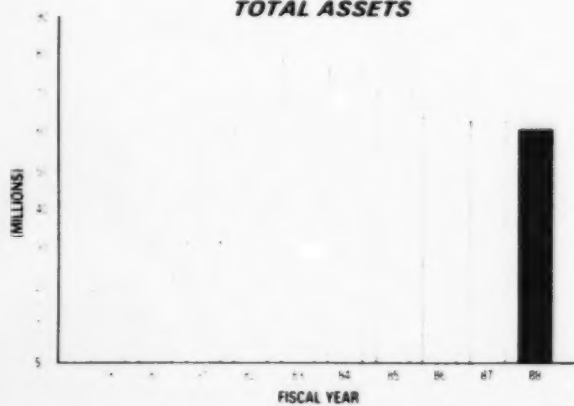
Financial Performance

In fiscal 1987-88, BC Systems recorded a profit of \$4.2 million on revenues of \$43.4 million. These results were achieved through improvements in services and substantial processing price reductions, which resulted in increases in demand for all product lines.

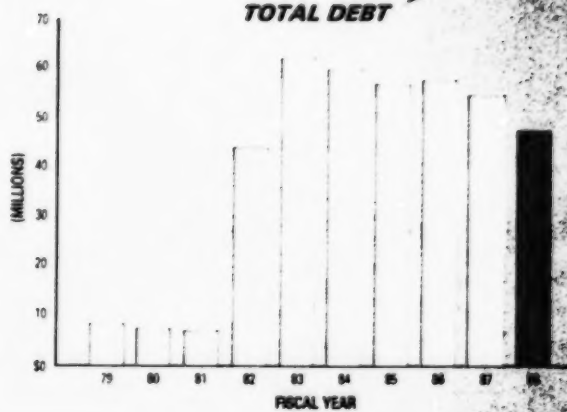
NET PROFIT



TOTAL ASSETS



TOTAL DEBT



Report Internal Activities



Tenth Anniversary Open House



BC Systems Electronic Mail User

A number of major tasks were undertaken in 1987-88 to improve organizational effectiveness, and to support employee and community programs.

The technology that has made the most impact on Corporate productivity in recent years is electronic mail. 1987-88 was the first complete year in which all Corporate employees enjoyed the benefits of electronic mail. Employees are now better informed, since reports of any significant event can be communicated to them immediately via electronic documents. Also, decisions are made rapidly via electronic conferences without the need to convene meetings. Travelling employees can keep in touch with Corporate activities by accessing their mail from any of 8,000 terminals throughout the Province attached to the BC Systems shared data communications network. The result is well-informed employees who can mobilize rapidly and coherently to meet any situation confronting the Corporation.

It has been ten years since the Corporation's inception in 1977. To celebrate the occasion, November 7, 1987 was designated as Employee Recognition Day. Employees and their families enjoyed an open house and tours of the Headquarters facility. At the open house, Information Kiosks prepared by Information Systems Branch staff were displayed and recognition awards were presented to employees who had been with the Corporation since its founding. Approximately 200 employees volunteered their time to organize this very successful Tenth Anniversary event.

Throughout the year the Corporation and its staff contributed significantly to community programs. In participation with educational institutions, BC Systems supported student work experience programs, presented at career opportunity events in local schools and provided resources for the University of Victoria's Computer Based Information Systems program. The Corporation received the Industry Recognition Award for its sponsorship of the Data Processing Management Association and was recognized by the United Way for an outstanding level of employee participation. The Corporation also supported the Workers' Compensation Board's Access Ability Training Centre initiative and was an active member of the BC Government's Women's Advisory Committee.

AUDITORS' REPORT

The Honourable Elwood N. Veitch
Provincial Secretary and
Minister of Government Services
Minister of State for Mainland/Southwest Region
Province of British Columbia

We have examined the balance sheet of British Columbia Systems Corporation as at March 31, 1988 and the statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at March 31, 1988 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Thorne Ernst & Whinney

Thorne Ernst & Whinney
May 26, 1988

Sheet (expressed in thousands)

ASSETS

As At March 31
1988 1987

CURRENT ASSETS

Cash	\$ 456	\$ 234
Accounts receivable	5,245	3,694
Prepaid expenses	482	311
	<u>6,183</u>	<u>4,239</u>

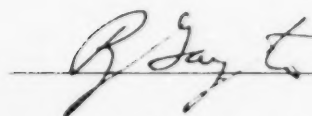
FIXED ASSETS (note 1)

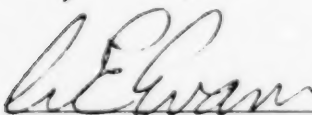
Land	6,917	6,917
Building	31,659	31,377
Computer and ancillary equipment	37,726	32,270
Furniture and fixtures	1,938	1,868
Leasehold improvements	174	170
	<u>78,414</u>	<u>72,602</u>
Accumulated depreciation and amortization	<u>23,102</u>	<u>13,229</u>
	<u>55,312</u>	<u>59,373</u>

OTHER ASSETS

Deferred bond discount and issue costs	151	196
	<u>\$61,646</u>	<u>\$63,808</u>

APPROVED BY THE BOARD:

 Director

 Director

LIABILITIES AND RETAINED EARNINGS**As At March 31**
1988 1987**CURRENT LIABILITIES**

Notes payable, Province of British Columbia (note 3)	\$ 8,989	\$ 4,472
Accounts payable and accrued liabilities	6,558	5,984
Deferred revenue	553	215
Current portion of long-term debt (note 4)		
Lease capitalization	451	535
Other	929	929
Contractual liability for computer and ancillary equipment (note 5)	<u>547</u>	<u>9,908</u>
	<u>18,027</u>	<u>22,043</u>

LONG-TERM DEBT (note 4)

Lease capitalization	218	1,338
Other	<u>36,593</u>	<u>37,850</u>
	<u>36,811</u>	<u>39,188</u>

RETAINED EARNINGS (note 10)

	<u>6,808</u>	<u>2,577</u>
	<u>\$61,646</u>	<u>\$63,808</u>

COMMITMENTS (note 11)**CONTINGENCIES (note 13)**

and

(expressed in thousands)

	Year ended March 31	
	1988	1987
Revenue		
Processing (note 6)	\$28,284	\$32,678
Network	8,119	6,753
Labour	3,228	2,534
Services purchased for clients, net	2,238	2,135
Interest and other	<u>1,485</u>	<u>1,996</u>
	<u>43,354</u>	<u>46,096</u>
Expenses		
Employee (note 7)	10,781	8,573
Facilities management fees (note 8)	3,781	5,561
Administrative and general	3,949	3,428
Depreciation and amortization	10,235	9,014
Equipment rental and maintenance	7,468	8,271
Interest on debt (note 4)	<u>6,709</u>	<u>8,536</u>
Total expenses before contribution	42,923	43,383
Contribution from Province of British Columbia (note 9)	<u>(3,800)</u>	<u>-</u>
Net expenses	<u>39,123</u>	<u>43,383</u>
NET INCOME (note 10)	4,231	2,713
Retained earnings (deficit) at beginning of year	<u>2,577</u>	<u>(136)</u>
RETAINED EARNINGS AT END OF YEAR	<u>\$ 6,808</u>	<u>\$ 2,577</u>

Statement of in Financial Position

(expressed in thousands)

Year ended March 31
1988 1987

CASH PROVIDED BY (USED FOR):

OPERATIONS

Net income	\$ 4,231	\$ 2,713
Items not involving cash		
Depreciation and amortization	10,462	9,340
Deferred foreign exchange translation loss	-	628
Deferred bond discount and issue costs	45	(196)
Gain on disposal of fixed assets	(193)	(302)
Change in non-cash operating working capital	(810)	5,822
	<u>13,735</u>	<u>18,005</u>

FINANCING

Long-term debt reductions	(2,461)	(31,470)
Additions to long-term debt	-	16,000
Short-term borrowings, net of repayments	4,517	2,472
	<u>2,056</u>	<u>(12,998)</u>

INVESTMENTS

Additions to fixed assets	(7,028)	(23,511)
Proceeds from disposal of fixed assets	820	6,894
Change in contractual liability for computer and ancillary equipment	(9,361)	9,810
	<u>(15,569)</u>	<u>(6,807)</u>

INCREASE (DECREASE) IN CASH POSITION

	222	(1,800)
Cash at beginning of year	<u>234</u>	<u>2,034</u>

CASH AT END OF YEAR

	<u>\$ 456</u>	<u>\$ 234</u>
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Statements Year ended March 31, 1988

General

British Columbia Systems Corporation is incorporated as a Crown Corporation of the Province of British Columbia under the System Act R.S.B.C. 1979, whose mandate is to advance the effective and efficient use of information systems in the British Columbia public sector. As a service organization within government, British Columbia Systems Corporation provides shared computer processing, data and voice communication and selected professional services on a competitive basis. In 1987-88, the Corporation received 90% of its revenues from Provincial Government Ministries, with the balance from other Government entities.

On October 23, 1987, the Government of British Columbia announced plans to offer all or part of the Corporation for sale to the private sector. Also, during the year, the Corporation assumed the responsibility for the coordination and management of telecommunications services for the Provincial Government.

Summary of Significant Accounting Policies

Statement presentation

As prescribed by Section 9(6) of the System Act, the financial statements of the Corporation are prepared in accordance with generally accepted accounting principles.

Accrual accounting

The accrual method of accounting is used in the preparation of these financial statements. Accordingly, revenues are recorded in the period they are earned and expenditures are recorded in the period they are incurred.

Fixed Assets

The Corporation leases some of its computer equipment. Certain of these leases, however, transfer the benefits and risks incident to ownership to the Corporation. In such cases, as more fully described in notes 1 and 4, the leases have been capitalized.

The cost of fixed assets is depreciated and amortized over their estimated useful lives as follows:

Building	Over forty years on a straight-line basis
Building equipment	Over twenty years on a straight-line basis
Computer mainframes	Over terms up to four years on an annuity basis
Other computer and ancillary equipment	Over terms up to three years on a straight-line basis
Furniture and fixtures	Over ten years on a straight-line basis
Leasehold improvements	Over terms of leases on a straight-line basis

(cont'd)

Revenue recognition

Revenue from resource billing is recognized as the services are performed. Revenue from fixed price contracts is recognized over the terms of the respective contracts.

Income taxes

The Corporation is exempt from Federal and Provincial income taxes.

Sinking funds

Payments made to sinking funds with respect to retirement provisions of the sinking fund bonds and debentures are netted against long-term debt until such time as the bonds or debentures are redeemed and cancelled. Interest earned on the sinking funds is treated as interest income with a corresponding increase in the sinking funds.

Amortization of other assets

Discount and issue costs relating to the Province of British Columbia bond Series BCSC-M are deferred and amortized on a straight-line basis over the term of the bond.

1. Fixed Assets

- (a) During the year, the Corporation acquired fixed assets totalling \$7,028,000 (computer and ancillary equipment - \$6,668,000). The Corporation also disposed of fixed assets with a gross book value of \$1,217,000 (computer and ancillary equipment - \$1,212,000).
- (b) Included in fixed assets is computer equipment arising from the capitalization of certain leases at a cost of \$1,254,000 (1986-87 - \$2,469,000). The related accumulated depreciation amounts to \$778,000 (1986-87 - \$868,000).

2. Borrowing Authority

Pursuant to Section 8(6) of the System Act, the Corporation may be advanced or borrow up to \$65,000,000. In computing that amount, the aggregate net rentals payable by the Corporation under leases of personal property for a term exceeding one year shall be excluded.

3. Notes Payable, Province of British Columbia

These consist of short-term notes bearing interest at rates ranging from 8.40% to 8.73% and maturing at various dates to July 28, 1988.

Notes to Financial Statements (cont'd)

4. Long-Term Debt

(a) Lease capitalization

The minimum annual contractual obligations with respect to capitalized leases are as follows:

1988-89	\$ 514,000
1989-90	231,000
	<u>745,000</u>

Less imputed interest at an average annual rate of 14.4% 76,000

Capitalized lease obligations 669,000

Less current portion 451,000

Long-term portion \$ 218,000

(b) Other

	Interest rate	Maturity date	Amount
Canada Pension Plan debentures			
Series 1	15.69%	June 2001	\$14,007,000
Series 2	16.10%	March 2002	12,500,000
Province of British Columbia bond Series BCSC-M	9.00%	August 1991	<u>16,000,000</u>
			<u>42,507,000</u>

Less sinking funds on deposit with the Minister of Finance for British Columbia (1986-87 - \$3,728,000) 4,985,000

37,522,000

Less current portion 929,000

Long-term portion \$36,593,000

Mandatory sinking fund requirements in respect of the above debt for each of the next five years and thereafter are as follows:

	CPP S-1 & 2	Bond BCSC-M	Total
1988-89	\$ 579,000	\$ 350,000	\$ 929,000
1989-90	579,000	350,000	929,000
1990-91	579,000	350,000	929,000
1991-92	579,000	14,582,000	15,161,000
1992-93	579,000	-	579,000
Thereafter	<u>18,995,000</u>	<u>-</u>	<u>18,995,000</u>
	<u><u>\$21,890,000</u></u>	<u><u>\$15,632,000</u></u>	<u><u>\$37,522,000</u></u>

(cont'd)

4. Long-Term Debt (continued)

The Province of British Columbia has guaranteed the payment of principal and interest on all long-term debt, with the exception of capitalized leases as in (a) above, issued by the Corporation.

(c) Interest expense

Interest expense on long-term debt for fiscal 1987-88 was \$5.8 million (1986-87 - \$8.4 million).

5. Contractual Liability for Computer Equipment

The contractual liability incurred at March 31, 1987 for the acquisition of computer and ancillary equipment was financed through short-term borrowings in fiscal 1987-88 as described in note 3.

6. Processing

Machine processing revenue was reduced by \$4.4 million or 13% from the previous year, mainly due to a 30% mainframe rate reduction implemented in the current fiscal year. The impact of this rate decrease has been substantially offset by the increased volume in machine processing.

7. Early Retirement Plan

During the year, the Government of British Columbia announced an Early Retirement Incentive Plan for employees eligible to retire prior to April 1, 1988. The Board of Directors of the Corporation approved a plan parallel to that offered by the Government. The cost of the plan (\$535,000) has been provided for in these financial statements.

8. Facilities Management Contract

On October 1, 1987, the Corporation agreed to a one-year extension of the Facilities Management Contract. Negotiations on a further extension of the contract term after September 30, 1988 are currently in process.

9. Contribution from the Province of British Columbia

In 1987-88, the Province of British Columbia agreed to provide assistance of \$3.8 million per annum toward the costs of the building incurred by the Corporation. This assistance will terminate March 31, 2002.

10. Net Income

Pursuant to Section 8(5) of the System Act, the Lieutenant-Governor in Council may, each fiscal year, on the recommendation of the Minister of Finance, direct the transfer to the Government of all or part of the net income for the current year or for previous years to the extent not previously so transferred.

11. Lease Commitments

The Corporation leases some of its premises and computer equipment for periods of up to five years.

The minimum annual contractual obligations of non-cancellable leases are as follows (excluding amounts relating to capitalized leases):

1988-89	\$274,000
1989-90	194,000
1990-91	160,000
1991-92	33,000

Notes (cont'd)

12. Pension and Superannuation Plans

Until the Corporation establishes a pension or superannuation plan, the Public Service Superannuation Act applies to the Corporation and its officers and employees. The Corporation is obliged to contribute to the Public Service Superannuation Fund.

13. Contingencies

- (a) At March 31, 1988, there are claims and potential claims against the Corporation in respect of management remuneration matters pertaining to prior years. The Corporation is unable to determine the extent of the liability, if any, which may result from these claims and potential claims.
- (b) The Corporation is obligated under the Facilities Management Contract (note 8) to cover certain employee termination costs should the contract not be renewed. The Corporation is unable to determine the extent of the liability, if any, which may result from this obligation.

No liability has been reflected in these financial statements in respect of these contingent matters. Should a liability arise in the future, the expense will be charged to income in the period in which the settlement occurs.

14. Comparative Figures

Certain comparative figures have been reclassified to conform with the method of presentation adopted in the current fiscal year.

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